

Locally present, globally connected

COVID-19, a catalyst to glocalisation

Economies of scale thinking is being challenged

Globalisation, as we knew it, is over. While the tariff wars had already pushed companies to reconsider their dependence on China and long, global supply chains, this trend of relocating and regionalisation is being accelerated due to COVID-19.

In the past, decisions on how to organise supply chains have been based on scale effects and lowest cost, supply chain risk wasn't really considered. This has changed. Not only are long supply chains vulnerable to disruption, but geographical disparity in manufacturing costs is slowly disappearing and increased automation has made labour cost even less of an item in the balance. COVID-19 made it clear that supply chain risk also has a cost. Global supply chains, like those in the Technology industry in particular, proved to be very vulnerable. Just think of the Apple store limiting the number of iPhones consumers could purchase in March 2020.

Of course, not all industries will be able to go fully regional, and certainly not in the short term. But better articulated risk-reward claims are bound to be at the forefront of footprint decisions in a wider selection of industries and activities in the future. Automation changes the requirement for talent, focusing less on quantity and more on quality. The enabling skills base therefore continues to be a critical location selection factor when deciding where to produce or distribute products from. That means we'll need to invest in upskilling to complement already existing advantages in institutional framework, business environment and infrastructure.

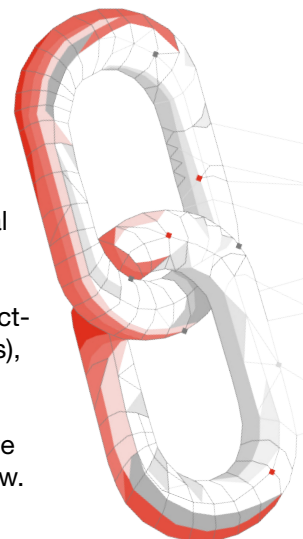
75%

of the world's global manufacturing output has been impacted by COVID-19 (WEforum)

Acceleration towards a new industrial fabric

As indicated, the current crisis will only accelerate the pace at which we move towards more regional supply chains, closer to customers. The underlying forces will get a boost, but were already having an impact on our industrial fabric:

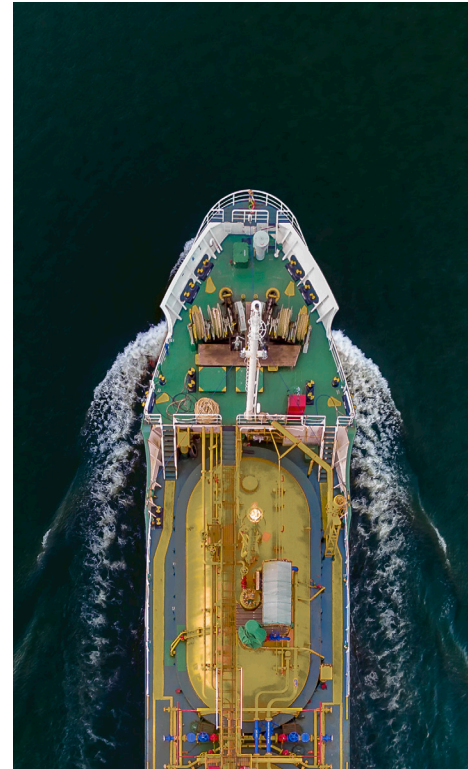
- 1. Individualisation and impatience** - Industries close to the end consumer, in particular, are shifting to ever-faster delivery (e.g. Amazon Prime) and products specifically designed for you (e.g. Twikit to personalise your Mini Cooper). The only way to make this happen is through more local production and logistics.
- 2. Sustainability and circularity** - A floating farm in Rotterdam houses over 30 cows and delivers yoghurt and milk by electric vehicle to the city centre. It's a perfect example of how production can move closer to the customer base and the positive effect it has on our ecological footprint.
- 3. Technology maturity and willingness to adopt** - COVID-19's massively accelerated the adoption rate of new technology. In the supply chain and manufacturing, we'll see an additional surge to connect digitally and produce tailored products for specific individual customers.
- 4. Urbanisation** - The increased level of urbanisation will create viable business models for direct-to-consumer delivery. Production will also move closer to these hotspots; Oatly (oatmeal drinks), for example, is building its Singapore production facility in an existing skyscraper.
- 5. Geopolitics** - Trade wars and tariffs have reshaped global trade over the last few years. We've already seen many companies relocating because of this, a trend likely to continue or even grow.



How to start building short value chains

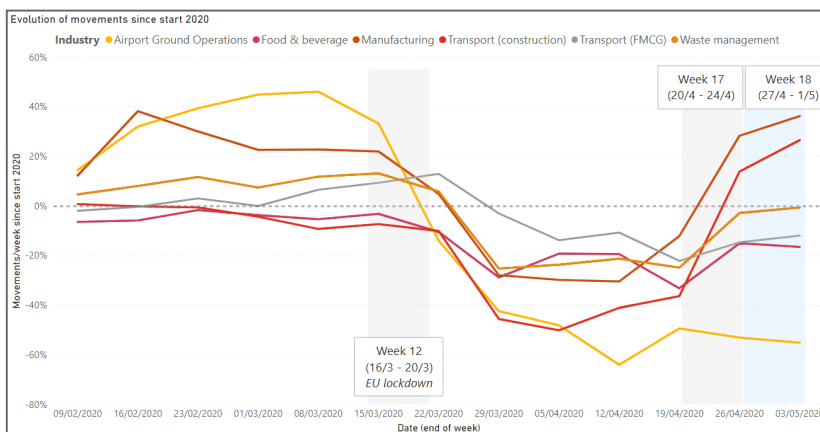
While most companies have been focused on restarting their operations (see graph), very soon we'll see supply chains transform more fundamentally. It's clear that reshaping supply chains takes time. In doing so, make sure to consider the following (in order of short-term feasibility):

1. **Build in security:** duplicate critical supply sources, increase safety stocks on critical resources and products
2. **Gain real-time transparency:** map your supply chains in depth with new track-and-trace technology: critical resources, suppliers, customers, etc.
3. **Get closer to your customer:** evaluate your strategic product portfolio with the new insights you've gained
4. **Invest in advanced manufacturing technology (Industry 4.0):** increased automation in production, logistics and administrative environments, remote assistance app, Industrial IoT applications, etc.
5. **Adapt your footprint:** go for more local production sites, connected via a digital backbone
6. **Review the tax implications** of a change in footprint and related supply chain flows
7. **Build a connected supply chain using technology:** videoconferencing, track-and-trace solutions, integrated business planning tools, etc.
8. **Investigate the circularity** of your operations and their ecological impact
9. **Develop multiple channels** to market, especially including direct to customer online
10. **Use the gig economy** in more traditional industrial environments (e.g. to support a new channel to market)



COVID-19 brought down a critical barrier and supply chains will undergo fundamental changes over the coming six to 24 months.

New technology can bring instant transparency and a competitive edge



Sensolus data: activity level of IoT devices in supply chains and operations, indicating a restart's underway

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